December 15, 2012

Mr. Steve Valenzuela, Chief Financial Officer
CRA/LA – A Designated Local Authority
1200 West 7th Street, 2F
Los Angeles, CA 90017

Dear Mr. Valenzuela:

Subject: Low and Moderate Income Housing Fund Due Diligence Review

This letter supersedes Finance's original Low and Moderate Income Housing Fund (LMIHF) Due Diligence Review (DDR) determination letter dated November 9, 2012. Pursuant to Health and Safety Code (HSC) section 34179.6 (c), the City of Los Angeles successor agency (Agency) submitted an oversight board approved LMIHF DDR to the California Department of Finance (Finance) on October 12, 2012. Finance issued a LMIHF DDR determination letter on November 9, 2012. Subsequently, the Agency requested a Meet and Confer session on one or more items adjusted by Finance. The Meet and Confer Session was held on November 28, 2012.

Based on a review of additional or clarifying information provided to Finance during the Meet and Confer process, Finance is revising the adjustments made in our previous LMIHF DDR determination letter. Specifically, we are revising the following adjustments:

- Advances to Other Funds totaling $3.1 million for which it was previously unclear these funds were advanced from the LMIHF to pay for the Supplemental Education Revenue Augmentation Fund (SERAF). It is now our understanding the $3.1 million represents a LMIHF loan receivable due from the Redevelopment Property Tax Trust Fund (RPTTF). Therefore, these balances are restricted and the LMIHF balances available for distribution to the taxing entities will be revised by $3.1 million.

- Finance originally denied the Agency's request to retain $12.5 million due to a lack of evidence there would be insufficient property taxes to pay the specified obligations. During the Meet and Confer process, the Agency provided additional supporting documentation.

  Related to the Los Angeles Grand Avenue Affordable Housing Loan in the amount of $5.6 million, Finance approved LMIHF as a funding source on Recognized Obligation Payment Schedule (ROPS) January through June 2012 period in our letter dated May 26, 2012. The Agency states due to timing issues of when the approval letter was received and with on-going year-end closing activities taking place, this did not allow sufficient time to issue a payment. The Agency also has a standard practice to suspend all issuances of payments until after fiscal year end close. Therefore, payment was not issued for this obligation until July 2012. Supporting documentation in the form of a cancelled check dated July 24, 2012, showed the Agency provided a loan of $5.6 million in LMIHF to the developer relating to fifty-two affordable housing units in Phase IIB of the Grand Avenue project. Therefore, due to timing issues, these balances are restricted and the LMIHF balances available for distribution to the taxing entities will be revised by $5.6 million.

Related to payment for security services for two housing properties in the amount of $6,361, the Agency claims payments to Odona Central Security to be from RPTTF, but in fact $6,361 was encumbered and paid from LMIHF. RPTTF was the approved funding source for this obligation on ROPS I and II; therefore, these funds should be made available and captured through the other funds DDR process. As such, we are revising the adjustment by $6,361.

However, Finance continues to believe some of the adjustments made to the DDR's stated balance of LMIHF available for distribution to the taxing entities is appropriate. HSC section 34179.6 (d) authorizes Finance to make these adjustments. We maintain the adjustment continues to be necessary for the following reason:

- The Agency concurred with Finance's adjustment of $6,868,780 which relates to the $12.5 million previously denied in our November 9, 2012 letter. The Agency agreed $6,868,780 in LMIHF is available for distribution to the affected taxing entities and those obligations will be deferred and placed on the July 1 through December 31, 2013 ROPS. As such, Finance deems it not necessary for Agency to retain the requested funds.

The Agency's LMIHF balance available for distribution to the affected taxing entities has been revised to $35,644,416 (see table below).

LMIHF Balances Available For Distribution To Taxing Entities		
Available Balance per DDR:	$	28,775,616
Finance Adjustments		
Add:		
Disallowed transfers:		0
Requested retained balance not supported:		6,868,800
Total LMIHF available to be distributed:	$	35,644,416

This is Finance's final determination of the LMIHF balances available for distribution to the taxing entities. HSC section 34179.6 (f) requires successor agencies to transmit to the county auditor-controller the amount of funds identified in the above table within five working days, plus any interest those sums accumulated while in the possession of the recipient.

If funds identified for transmission are in the possession of the successor agency, and if the successor agency is operated by the city or county that created the former redevelopment agency, then failure to transmit the identified funds may result in offsets to the city's or the county's sales and use tax allocation, as well as its property tax allocation. If funds identified for transmission are in the possession of another taxing entity, the successor agency is required to take diligent efforts to recover such funds. A failure to recover and remit those funds may result in offsets to the other taxing entity's sales and use tax allocation or to its property tax allocation. If funds identified for transmission are in the possession of a private entity, HSC 34179.6 (h) (1)

(B) states that any remittance related to unallowable transfers to a private party may also be subject to a 10 percent penalty if not remitted within 60 days.

Failure to transmit the identified funds will also prevent the Agency from being able to receive a finding of completion from Finance. Without a finding of completion, the Agency will be unable to take advantage of the provisions detailed in HSC section 34191.4. Specifically, these provisions allow certain loan agreements between the former redevelopment agency (RDA) and the city, county, or city and county that created the RDA to be considered enforceable obligations. These provisions also allow certain bond proceeds to be used for the purposes in which they were sold and allows for the transfer of real property and interests into the Community Redevelopment Property Trust Fund once Finance approves the Agency's long-range property management plan.

In addition to the consequences above, willful failure to return assets that were deemed an unallowable transfer or failure to remit the funds identified above could expose certain individuals to criminal penalties under existing law.

Pursuant to HSC section 34167.5 and 34178.8, the California State Controller's Office (Controller) has the authority to claw back assets that were inappropriately transferred to the city, county, or any other public agency. Determinations outlined in this letter and Finance's Housing Assets Transfer letter dated August 31, 2012 do not in any way eliminate the Controller's authority.

Please direct inquiries to Kylie Le, Supervisor or Brian Dunham, Lead Analyst at (916) 445-1546.

Sincerely,

For

STEVE SZALAY
Local Government Consultant

cc: Ms. Christine Essel, Chief Executive Officer, CRA/LA
Mr. Nicholas Saponara, Acting Special Assistant to CFO, CRA/LA – Designated Local Authority
Ms. Kristina Burns, Manager, Los Angeles County Auditor-Controller's Office
California State Controller's Office